

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Financial Statements, Supplementary Information, and
Management's Discussion and Analysis

June 30, 2004

(With Independent Auditors' Reports Thereon)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

June 30, 2004

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Penderbrook, Project No. 880149 (the Project), as of and for the year ended June 30, 2004 as listed in the accompanying table of contents. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Project are intended to present the financial position and changes in financial position and cash flows of only the Project. They do not purport to, and do not, present fairly the financial position of the Fairfax County Redevelopment and Housing Authority as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of the Project referred to above present fairly, in all material respects, the financial position of the Project at June 30, 2004, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was made for the purpose of forming an opinion on the Project's financial statements taken as a whole. The supplementary information on pages 15 to 18 is presented for purposes of additional analysis and is not a required part of the Project's financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

August 27, 2004

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Introduction

The Fairfax County Redevelopment and Housing Authority (FCRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment and revitalization programs within Fairfax County as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors created the Department of Housing and Community Development (HCD) to act as the development and administrative agency for the FCRHA and the Board in meeting the housing and community development needs of the County's low and moderate income residents.

The FCRHA presents this discussion and analysis of Penderbrook, Project No. 880149 (the Project) for the fiscal year ended June 30, 2004 to assist the reader in focusing on significant financial issues. The Project consists of 48 rental units and is included in the overall Fairfax County Rental Program.

The Project's Financial Highlights for FY2004

In summary, the Project's FY2004 financial highlights included the following:

- At June 30, 2004, total assets and liabilities were approximately \$2.9 million and \$0.7 million, respectively; thus total net assets were approximately \$2.2 million.
- Total revenues and expenses were \$380,717 and \$432,995, respectively; thus net assets decreased by \$52,278 in FY2004.
- Cash flows from operating activities amounted to \$94,962. After considering investing and capital and related financial activities, there is a net decrease in cash of \$29,483, which is primarily a result of planned capital expenditures of \$53,345 in FY2004.

Overall, these financial highlights present a strong financial position for the Project in FY2004.

Project Financial Statements

This discussion and analysis presents the Project's financial results in three financial statements – the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The FY2004 financial results are compared to those of FY2003, thus allowing the readers to ascertain the reasons for changes in expenses, revenues, or net asset balances. These financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, the financial statements recognize revenues in the period they are earned and expenses in the period they are incurred.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Summary of Net Assets

The Project's FY2004 and FY2003 statements of net assets, which are similar to balance sheets, report all financial and capital assets of the Project and are presented in a format where assets minus liabilities equals net assets. The following table reflects a condensed summary of net assets as of June 30, 2004 and 2003.

Table 1
Summary of Net Assets
June 30, 2004 and 2003

Description	2004	2003	Increase (decrease)
Current and other assets	\$ 950,156	980,436	(30,280)
Capital assets	1,891,749	1,940,496	(48,747)
Total assets	2,841,905	2,920,932	(79,027)
Current liabilities	57,445	62,093	(4,648)
Noncurrent liabilities	603,789	625,890	(22,101)
Total liabilities	661,234	687,983	(26,749)
Net assets:			
Invested in capital assets, net of related debt	1,270,999	1,301,596	(30,597)
Restricted	493,099	513,520	(20,421)
Unrestricted	416,573	417,833	(1,260)
Total net assets	\$ 2,180,671	2,232,949	(52,278)

The Project's statement of net assets generally reflects a strong financial position for FY2004. The Project's net assets include unrestricted net assets of \$416,573 and restricted net assets of \$493,099. Restricted net assets of the Project consist of funded reserves required by the mortgagee. Unrestricted net assets include cash on deposit with Fairfax County and tenant accounts receivable. The decline in current and other assets and restricted net assets is primarily a result of the Project using replacement reserves to fund capital expenditures for the new HVAC system.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Summary of Revenues, Expenses, and Changes in Net Assets

The Project's statement of revenues, expenses, and changes in net assets (similar to income statements) include operating revenues, such as rental income, operating expenses, such as administrative, utilities, repairs and maintenance, and depreciation, and nonoperating revenues and expenses, such as investment income and interest expense. The statement reflects a decrease in net assets in FY2004 of \$52,278. Table 2 presents a condensed summary of data from the Project's statements of revenues, expenses, and changes in net assets.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2004 and 2003

Description	2004	2003	Increase (decrease)
Revenues:			
Operating revenues	\$ 368,981	352,339	16,642
Nonoperating revenues	11,736	18,000	(6,264)
Total revenues	380,717	370,339	10,378
Expenses:			
Operating expenses	368,528	304,760	63,768
Nonoperating expenses	64,467	66,297	(1,830)
Total expenses	432,995	371,057	61,938
Increase (decrease) in net assets	\$ (52,278)	(718)	(51,560)

In FY2004, the Project's operating expenses totaled \$368,528, most of which consists of administrative expenses related to personnel salaries and employee fringe benefit contributions, auditing costs, insurance, and office supplies, utilities, repairs and maintenance expense, and depreciation expense. Nonoperating expenses represent interest on the mortgage. The increase in operating expenses in FY2004 is primarily a result of an increase in scheduled maintenance.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Capital Assets and Debt Administration

The Project's capital assets as of June 30, 2004 included land, buildings and improvements, and furniture and equipment that totaled \$1,891,749 net of accumulated depreciation of \$1,405,602. A breakdown of these assets is shown in the following table.

Table 3
Change in Capital Assets of the Penderbrook Project
Year ended June 30, 2004

Description	Beginning balance	Net change	Ending balance
Nondepreciable assets:			
Land	\$ 649,636	—	649,636
Depreciable capital assets:			
Buildings and improvements	2,587,486	—	2,587,486
Furniture and equipment	6,884	53,345	60,229
Accumulated depreciation on depreciable capital assets	(1,303,510)	(102,092)	(1,405,602)
Totals	\$ 1,940,496		1,891,749

The increase of \$53,345 in the furniture and equipment category is a result of the new HVAC system.

The Virginia Housing Development Authority provided the permanent financing for the purchase of the land and buildings. The outstanding balance of the mortgage amounted to \$620,750 and \$638,900 at June 30, 2004 and 2003, respectively. The decrease in 2004 is a result of scheduled principal payments.

Project Challenges for the Future

Built in the late 1980s, the Project's existing mechanical system, a straight electric resistant heat and electric air conditioning system, was replaced in FY2004. All costs associated with the replacement of the HVAC system were funded entirely out of the Project's replacement reserves. Other improvements are planned for the Project and will be started in FY2005.

Contacting FCRHA Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, tenants, and investors and creditors with a general overview of the Project's finances, and to demonstrate the Project's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia, 22030.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Statement of Net Assets

June 30, 2004

Assets

Current assets:

Cash on deposit with County of Fairfax, Virginia	\$ 456,507
Accounts receivable (net of allowance for doubtful account of \$137)	550
Total current assets	<u>457,057</u>

Noncurrent assets:

Restricted assets (note 4):	
Replacement reserves	493,099
Total restricted assets	<u>493,099</u>

Capital assets:

Depreciable:	
Buildings and improvements	2,587,486
Equipment	60,229
Nondepreciable:	
Land	649,636
Accumulated depreciation	<u>(1,405,602)</u>
Total capital assets, net	<u>1,891,749</u>
Total assets	<u>2,841,905</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	14,449
Deposits held in trust	15,744
Deferred revenue	2,356
Accrued compensated absences	4,796
Mortgage payable (note 4)	<u>20,100</u>
Total current liabilities	<u>57,445</u>

Noncurrent liabilities:

Accrued compensated absences	3,139
Mortgage payable (note 4)	<u>600,650</u>
Total long-term liabilities	<u>603,789</u>
Total liabilities	<u>661,234</u>

Net Assets

Invested in capital assets, net of related debt	1,270,999
Restricted net assets	493,099
Unrestricted net assets	<u>416,573</u>
Total net assets	<u>\$ 2,180,671</u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

Operating revenues:	
Dwelling rentals	\$ 363,863
Other	5,118
	<hr/>
Total operating revenues	368,981
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Operating expenses:	
Personnel services	133,123
Utilities	13,478
Repairs and maintenance	83,136
Administrative expenses	36,699
Depreciation	102,092
	<hr/>
Total operating expenses	368,528
	<hr/>
Operating income	453
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Nonoperating revenues (expenses):	
Interest revenue	11,736
Interest expense	(64,467)
	<hr/>
Total nonoperating expenses, net	(52,731)
	<hr/>
Change in net assets	(52,278)
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Total net assets, beginning of year	2,232,949
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Total net assets, end of year	\$ 2,180,671
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See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:	
Rental income received	\$ 364,080
Miscellaneous income received	5,118
Personnel expenses paid	(130,026)
Administrative expenses paid	(36,699)
Operating and maintenance expenses paid	(94,532)
Utilities paid	(13,478)
Net tenant security deposits received	463
Net cash provided by operating activities	<u>94,926</u>
Cash flows from investing activities:	
Purchase of capital assets	(53,345)
Interest received	11,736
Net cash used in investing activities	<u>(41,609)</u>
Cash flows from financing activities:	
Principal payments on mortgage payable	(18,150)
Interest payments on mortgage payable	(64,650)
Net cash used in capital and related financing activities	<u>(82,800)</u>
Net decrease in cash	(29,483)
Cash, beginning of year	<u>979,089</u>
Cash, end of year	<u><u>\$ 949,606</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 453
Depreciation	102,092
Decrease in accounts receivable	797
Decrease in accounts payable and accrued liabilities	(9,695)
Increase in accrued compensated absences	1,396
Decrease in deferred revenue	(580)
Increase in security deposits	463
Net cash provided by operating activities	<u><u>\$ 94,926</u></u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Notes to Financial Statements

June 30, 2004

(1) Narrative Profile

The Fairfax County Redevelopment and Housing Authority (the Authority), Rental Program – Penderbrook, Project No. 880149 (the Project) is comprised of two 24-unit apartment buildings included in the Fairfax County Rental Program. The Project is part of the privately owned Penderbrook community, which consists of approximately 1,800 housing units. The developers sold the land and buildings to the Fairfax County Redevelopment and Housing Authority (the Authority) on September 7, 1988. The purchase price of the Project was financed by appropriations from the County of Fairfax, Virginia (the County) and a 30-year mortgage from the Virginia Housing Development Authority (VHDA). The Authority is a component unit of the County.

The accompanying financial statements present only the financial position and changes in financial position and cash flows of the Project and are not intended to present fairly the financial position, changes in financial position, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP).

(2) Summary of Significant Accounting Policies

The accounting policies of the Project conform to GAAP as applicable to proprietary fund types of governmental units. The following is a summary of the Project's more significant accounting policies:

(a) *Basis of Accounting*

The activities of the Project are accounted for on an economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The Project applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989, unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

(b) *Cash on Deposit with County of Fairfax, Virginia*

Project cash is maintained within the treasury of the County of Fairfax, Virginia (the County). To optimize investment returns, the Project's funds are invested together with all other County pooled funds, all of which are fully insured or collateralized. The County allocates investment income to the Project based on its average cash balance.

(c) *Restricted Assets*

Restricted assets represent deposits and funded reserves held by the Virginia Housing Development Authority (VHDA), a state-housing-finance agency, pursuant to the regulatory agreement. All amounts are fully insured or collateralized. Such restricted assets have been included in cash for purposes of the Statement of Cash Flows.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Notes to Financial Statements

June 30, 2004

(d) *Capital Assets*

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at cost when purchased or at fair market value when donated. Depreciation on buildings and equipment is calculated using the straight-line method over estimated useful lives of 27.5 years for buildings and improvements and five to ten years for furniture and equipment. Depreciation is not recorded on land.

(e) *Compensated Absences*

Employees of the Project are granted vacation and sick leave based on their length of service. Unused vacation leave is payable to employees upon termination based on the employees' current rate of pay, up to certain limits. Sick leave does not vest with employees. Accumulated vacation is recorded as an expense and an accrued liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary – related payments (e.g., employer's share of social security taxes).

(f) *Revenue Recognition*

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned.

(g) *Operating Revenues and Expenses*

The Project's policy is to report all project revenues and expenses as operating with the exception of interest income and expense.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Notes to Financial Statements

June 30, 2004

(3) Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	\$ 649,636	—	—	649,636
Capital assets, being depreciated:				
Buildings and improvements	2,587,486	—	—	2,587,486
Furniture and equipment	6,884	53,345	—	60,229
Total capital assets being depreciated	2,594,370	53,345	—	2,647,715
Less accumulated depreciation for:				
Buildings and improvements	1,296,626	94,090	—	1,390,716
Furniture and equipment	6,884	8,002	—	14,886
Total accumulated depreciation	1,303,510	102,092	—	1,405,602
Capital assets, net	\$ 1,940,496	(48,747)	—	1,891,749

(4) Mortgage Loan Payable

The VHDA provided the permanent financing for the purchase of the Project's land and buildings. The outstanding balance of the mortgage loan carries an interest rate of 10.25% with final payment due October 1, 2018. The monthly principal and interest payment is \$6,900.

The land, buildings and equipment of the Project are pledged as security for the mortgage loan. The Project maintains certain restricted deposits and funded reserves as required by VHDA.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Notes to Financial Statements

June 30, 2004

The aggregate amount of the required principal and interest payments on the mortgage loan as of June 30, 2004 is \$1,186,798 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2005	\$ 20,100	62,700
2006	22,260	60,540
2007	24,651	58,149
2008	27,300	55,499
2009	30,234	52,566
2010 – 2014	207,471	206,528
2015 – 2019	288,734	70,066
Total	<u>\$ 620,750</u>	<u>566,048</u>

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Mortgage payable	\$ 638,900	—	18,150	620,750	20,100
Compensated absences	6,539	1,396	—	7,935	4,796
Total	<u>\$ 645,439</u>	<u>1,396</u>	<u>18,150</u>	<u>628,685</u>	<u>24,896</u>

(5) Risk Management

The Project is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and citizens, and natural disasters. For all of these risks, the Project participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2004.

SUPPLEMENTARY INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

June 30, 2004

The following supplementary information is presented for the purpose of additional analysis:

Accrued Liabilities

Accrued liabilities represent salaries and fringe benefits earned during the final payroll cycle of June 2004 and vacation earned but not used as of June 30, 2004.

Delinquent Tenant Accounts Receivable

	Number of tenants		Amount past due
Delinquent 30 days	5	\$	687
Delinquent 31-60 days	—		—
Delinquent over 60 days	—		—
Balance at June 30, 2004	5	\$	687

Tenant Security Deposits

As of June 30, 2004, consistent with County of Fairfax, Virginia, treasury procedures, tenant security deposits are not maintained in a separate trust fund. The VHDA has waived the requirement to deposit tenant security deposits in a separate account from all other funds of the Project.

Accounts Payable and Accrued Liabilities

Payable within 30 days	\$	19,245
Payable within 31-60 days		—
Balance at June 30, 2004	\$	19,245

Payables due in more than 60 days, all payables due mortgagee, and all payables due Management Agent:

Creditor	Purpose	Date incurred	Terms	Original amount	Amount due
VHDA	Mortgage	September 1988	30 years	\$ 770,000	620,750
Employees	Compensated absences	Various	N/A	N/A	3,139

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

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Supplementary Information

June 30, 2004

Schedule of Surplus Cash and Residual Receipts

Cash in treasury of county of Fairfax, Virginia	\$	456,507
Less current obligations:		
Tenant security deposits		15,744
Accounts payable and accrued liabilities (due within 30 days)		19,245
Prepaid revenue		2,356
		<hr/>
Total current obligations		37,345
		<hr/>
Surplus cash and residual receipts to be deposited to operating reserve account*	\$	<u><u>419,162</u></u>

*The VHDA has waived the requirements to deposit surplus cash and residual receipts for the Project.

Escrows Deposits with Mortgagee

In accordance with the provisions of the regulatory documents, funds are required to be held by VHDA in escrow for future payment of property insurance, liability insurance, etc. At June 30, 2004, escrow accounts maintained by VHDA are as follows:

Balance as of June 30, 2003, confirmed by mortgagee	\$	5,224
Total deposits		2,879
Total withdrawals		(8,103)
		<hr/>
Balance as of June 30, 2004, confirmed by mortgagee	\$	<u><u>—</u></u>

Reserve for Replacements

In accordance with the provisions of the Regulatory Agreement, restricted cash is held by VHDA to be used for replacement of property with the approval of VHDA as follows:

Balance as of June 30, 2003, confirmed by mortgagee	\$	508,296
Monthly deposits		43,008
Interest earned		11,736
Withdrawals		(69,941)
		<hr/>
Balance as of June 30, 2004, confirmed by mortgagee	\$	<u><u>493,099</u></u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2004

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 363,863	
	Tenant Assistance Payments	5121	—	
	Furniture and Equipment	5130	—	
	Stores and Commercial	5140	—	
	Garage and Parking Spaces	5170	—	
	Flexible Subsidy Income	5180	—	
	Miscellaneous (specify)	5190	—	
	Total Rent Revenue Potential at 100% Occupancy			\$ 363,863
Vacancies 5200	Apartments	5220	—	
	Furniture and Equipment	5230	—	
	Stores and Commercial	5240	—	
	Garage and Parking Spaces	5270	—	
	Miscellaneous (specify)	5290	—	
	Total Vacancies			\$ —
	Net Rental Revenue			\$ 363,863
	Elderly and Congregate Services Income - 5300			
	Total Service Income (Schedule Attached)	5300	—	—
Financial Revenue	Interest Income – Project Operations	5410	—	
	Income from Investments – Residual Receipts	5430	—	
	Income from Investments – Reserve for Replacement	5440	11,736	
	Income from Investments – Miscellaneous	5490	—	
	Total Financial Revenue			\$ 11,736
Other Revenue 5900	Laundry and Vending	5910	—	
	NSF and Late Charges	5920	3,804	
	Damages and Cleaning Fees	5930	—	
	Forfeited Tenant Security Deposits	5940	—	
	Other Revenue (specify) (Collection of A/R Write-Off)	5990	1,314	
	Total Other Revenue			\$ 5,118
	Total Revenue			\$ 380,717
Administrative Expenses 6200/6300	Advertising	6210	—	
	Other Administrative Expense	6250	25,953	
	Office Salaries	6310	113,569	
	Office Supplies	6310	933	
	Office or Model Apartment Rent	6312	—	
	Management	6320	—	
	Manager or Superintendent Salaries	6330	—	
	Manager or Superintendent Rent Free Unit	6331	—	
	Legal Expenses – Project	6340	121	
	Audit Expense – Project	6350	5,000	
	Bookkeeping Fees / Accounting Service	6351	—	
	Telephone and Answering Service	6360	—	
	Bad Debts	6370	1,326	
	Miscellaneous Administrative Expenses (specify)	6390	—	
	Total Administrative Expenses			\$ 146,902
Utilities Expense 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	3,583	
	Water	6451	9,895	
	Gas	6452	—	
	Sewer	6453	—	
	Total Utilities Expense			\$ 13,478

(Continued)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2004

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	—	
	Janitor and Cleaning Supplies	6515	—	
	Janitor and Cleaning Contract	6517	11,870	
	Exterminating Payroll / Contract	6519	1,033	
	Exterminating Supplies	6520	—	
	Garbage and Trash Removal	6525	8,538	
	Security Payroll / Contract	6530	16	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	—	
	Grounds Contract	6537	11,113	
	Repairs Payroll	6540	—	
	Repairs Material	6541	39,802	
	Repairs Contract	6542	9,790	
	Elevator Maintenance / Contract	6545	—	
	Heating / Cooling Repairs and Maintenance	6546	31	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	1,727	
	Decorating Payroll / Contract	6560	—	
	Decorating Supplies	6561	—	
	Other	6570	369	
	Miscellaneous Operating and Maintenance Expenses	6590	2,185	
Total Operating and Maintenance Expenses				\$ 86,474
Taxes and Insurance 6700	Real Estate Taxes	6710	—	
	Payroll Taxes (FICA)	6711	—	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	—	
	Property and Liability Insurance (Hazard)	6720	—	
	Fidelity Bond Insurance	6721	—	
	Workmen's Compensation	6722	—	
	Health Insurance and Other Employee Benefits	6723	19,554	
	Other Insurance (specify)	6729	—	
Total Taxes and Insurance				\$ 19,554
Financial Expenses 6800	Interest on Bonds Payable	6810	—	
	Interest on Mortgage Payable	6820	64,495	
	Interest on Notes Payable (Long-Term)	6830	—	
	Interest on Notes Payable (Short-Term)	6840	—	
	Mortgage Insurance Premium / Service Charge	6850	—	
	Miscellaneous Financial Expenses	6890	—	
Total Financial Expenses				\$ 64,495
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)	6900	—	\$ —
	Total Cost of Operations Before Depreciation			\$ 330,903
	Profit (Loss) Before Depreciation			\$ 49,814
	Depreciation and Amortization	6600		\$ 102,092
	Operating Profit or (Loss)			\$ (52,278)
Corporate or Mortgagor Entity Expenses 7100	Officer Salaries	7110		
	Legal Expenses – (Entity)	7120		
	Taxes (Federal – State – Entity)	7130-32		
	Other Expenses (Entity)	7190		
	Total Corporate Expenses			\$ —
Net Profit or (Loss)				\$ (52,278)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information
Changes in Capital Asset Accounts

Year ended June 30, 2004

	Assets			Accumulated depreciation		Net book value
	Balance June 30, 2003	Additions	Balance June 30, 2004	Balance June 30, 2003	Current provision	Balance June 30, 2004
Land	\$ 649,636	—	649,636	—	—	649,636
Buildings and improvements	2,587,486	—	2,587,486	1,296,626	94,090	1,196,770
Furniture and equipment	6,884	53,345	60,229	6,884	8,002	45,343
	<u>\$ 3,244,006</u>	<u>53,345</u>	<u>3,297,351</u>	<u>1,303,510</u>	<u>102,092</u>	<u>1,891,749</u>

See accompanying independent auditors' report.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Penderbrook, Project No. 880149 (the Project) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of the Board of Supervisors of Fairfax County, Virginia, the Board of Commissioners of the Fairfax County Redevelopment and Housing Authority, the Project's management and the Virginia Housing Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 27, 2004

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

Project Name: Rental Program – Penderbrook

Project Number: 880149

Fiscal Year End: June 30, 2004

Answers to these questions should be based upon a review of procedures and/or an actual test of transactions. “No” answers may be indicative of an adverse condition which must be described in the audit report unless the Mortgagor/Grantee has written permission from VHDA to deviate from the regular mortgage/grant requirements.

The following questionnaire is a required part of this report per the VHDA Mortgagor’s Audit Guide. The responses to the questions were entered by KPMG based on the results of inquiry and observations related to the item addressed. KPMG considered these items in preparing its report on internal control and this questionnaire should be read in conjunction with that report.

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
1. Mortgage Status				
a. Are payments on all mortgages current?	<u>X</u>	<u> </u>	<u> </u>	<u>I’s</u>
b. Has the Mortgagor/Grantee complied with the terms and conditions of the modification, forbearance and/or workout arrangement?	<u> </u>	<u> </u>	<u>X</u>	<u>N/A</u>
c. If the workout agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period?	<u> </u>	<u> </u>	<u>X</u>	<u>N/A</u>
2. Books and Records				
a. Are a complete set of books and records maintained in a satisfactory manner?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-F-series</u>
b. Does the Mortgagor/Grantee make frequent postings (at least monthly) to the ledger accounts?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-F-series</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
3. Cash Activities				
a. Are the cash receipts deposited in an account in the name of the development?		X as approved by VHDA		GB-I-series
b. Are all account balances federally insured?	X			GB-I-series
c. If a centralized account is used, is it limited to disbursements?		X as approved by VHDA		GB-I-series
d. Are security deposits kept in an account separate and apart from all other funds of the development?		X as approved by VHDA		GB-I-series
e. Does the balance in the security deposit account equal or exceed the liability? Note: The liability should include the accrued interest payable.	X			GB-I-series
f. Does the owner and/or the Management Agent have a fidelity bond in an amount at least equal to potential collections for two months (one month on Section 8 developments) which provides coverage for all employees handling cash?	X			PF-II-7
g. Did cash disbursements exclude payments for items listed below:				
• Legal expenses incurred in the sale of partnership interest?			X	None
• The fee for the preparation of a partner's, shareholder's or individual's federal, state, or local income tax returns?			X	None
• Expenses for advice to an owner on tax consequences of foreclosure?			X	None

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
• Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance, or provisional workout arrangements?	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
• Were all disbursements from the operating account(s) made exclusively for operations or obligations of the development?	<u> X </u>	<u> </u>	<u> </u>	<u> B-3 </u>
h. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of VHDA, while the development was in a “surplus cash” position?	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
Note: Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a “surplus cash” position for the purposes of distributions.	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
Note: The use of rental proceeds to pay for costs included in the Mortgagor/Grantee’s cost certification are unauthorized distributions of development income.	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
i. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request of such deposit?	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
j. Were excess rental collections in Section 236 developments remitted to HUD each month?	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
k. Does the Mortgagor/Grantee have a formal rent collection policy?	<u> X </u>	<u> </u>	<u> </u>	<u> GB-I-series </u>
l. Is the collection policy uniformly enforced?	<u> X </u>	<u> </u>	<u> </u>	<u> GB-I-series </u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
m. Do tenant accounts receivable consist exclusively of amounts due from other than employees?	<u>X</u>	<u> </u>	<u> </u>	<u>L-series</u>
n. Is there a formal procedure for write-off of bad debts?	<u>X</u>	<u> </u>	<u> </u>	<u>L-1</u>
o. Have write-offs of tenants' accounts been less than 1% of the gross rent?	<u>X</u>	<u> </u>	<u> </u>	<u>L-1</u>
p. Are accounts receivable other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
q. Were there indications that payments for services, supplies, or materials were not substantially in excess of amounts normally paid for such services in order to assure the most advantageous terms to the development?	<u>X</u>	<u> </u>	<u> </u>	<u>M-series</u>
r. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
4. <i>Management Compensation</i>				
a. Was compensation to the Management Agent limited to the amounts prescribed in the Management Agreement?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
b. Did agent not charge development for expenses which the Management Agreement requires agent to pay?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
5. <i>Rents and Occupancy</i>				
a. On conventional developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent Rent Schedule, VHDA Form No. MD: 540, Rent/Utility Allowance Report?	<u>X</u>	<u> </u>	<u> </u>	<u>L-series</u>
b. On subsidized developments, are dwelling unit rents the same as those approved by VHDA on the most recent Rent Schedule, VHDA Form No. MD: 540, Rent/Utility Allowance Report?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
6. <i>VHDA/HUD Subsidy Payments (Section 8/RAP Developments Only)</i>				
a. Were the amounts requested from VHDA/HUD adequately supported by the accounting records?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
b. Were subsidy receipts recorded in the proper accounts?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
c. Were utility allowance payments paid to residents within thirty days of receipt from VHDA and in an amount equal to the corresponding utility allowance subsidy amounts received?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
d. Were all uncashed allowance payments refunded to VHDA (via a Part II adjustment to the monthly Housing Assistance Payment) within six months of initial issuance by VHDA	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Certificate of Assistant Secretary

June 30, 2004

I hereby certify that I have examined the accompanying financial statements, supplementary information, and management's discussion and analysis and, to the best of my knowledge and belief, they are complete and accurate.

Mary A. Stevens
Assistant Secretary
Fairfax County Redevelopment and
Housing Authority
Employer Identification Number 52-1464034